



# 2004 Budget Preview and Six Year Fiscal Outlook


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Senate Ways and Means Committee  
December 4, 2003



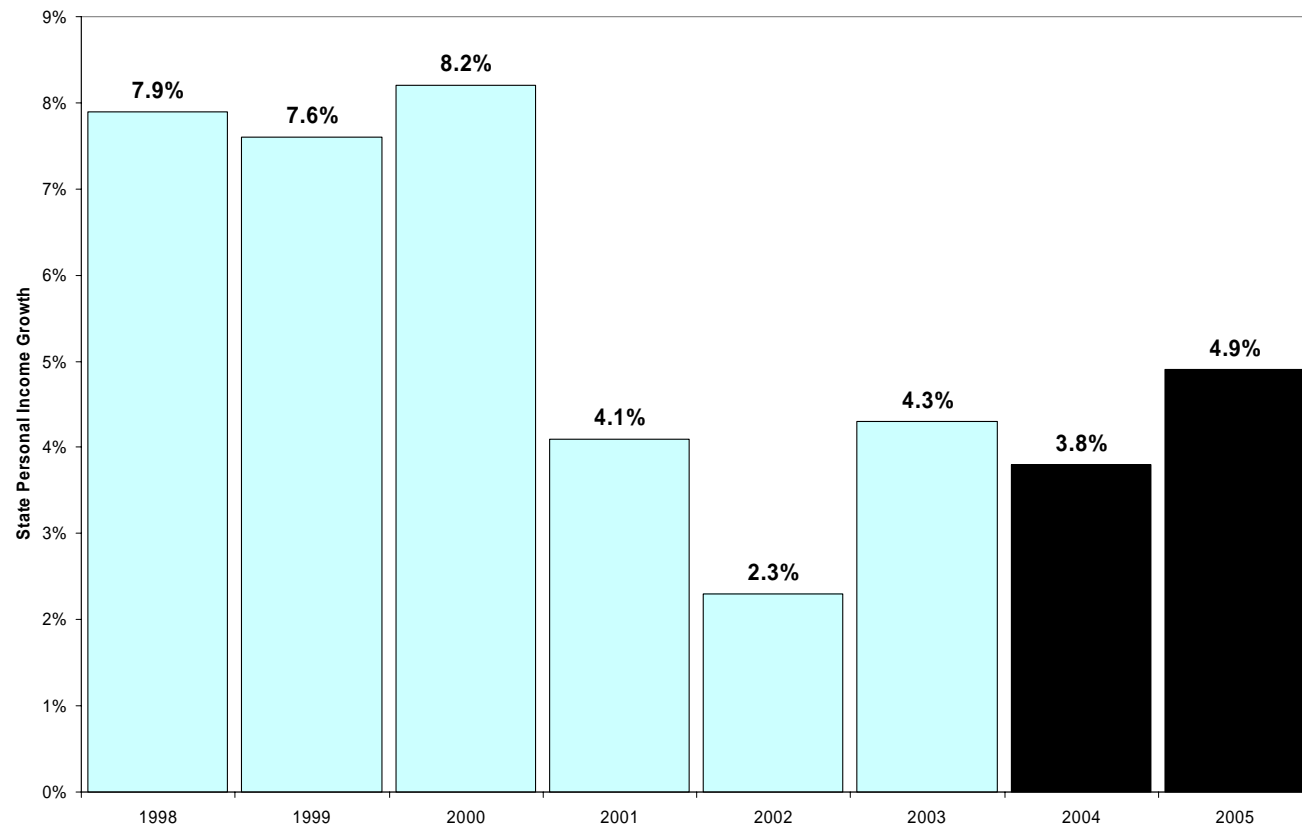
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## Part 1: The Economy and Revenues

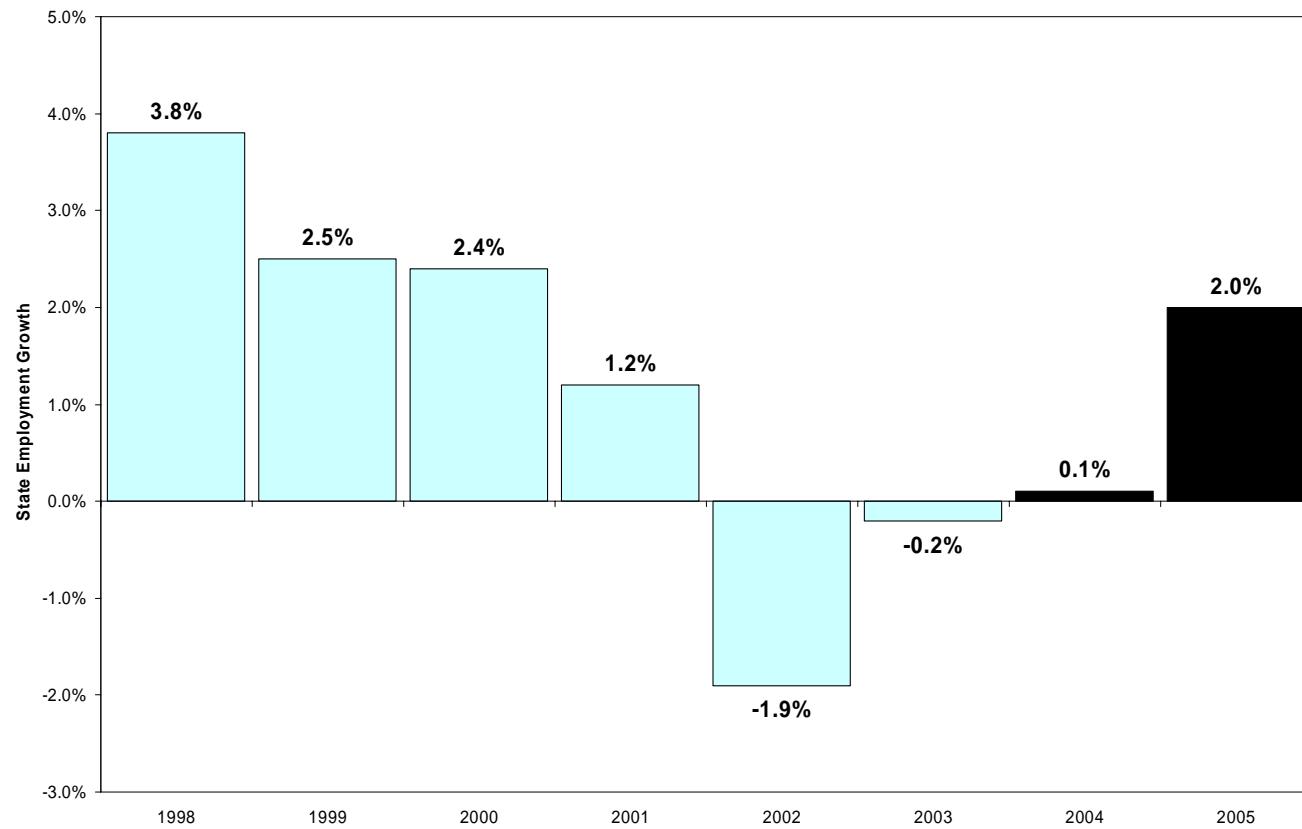


After years of above average growth, the state's economy slowed in 2001 and 2002, but is expected to return to normal levels

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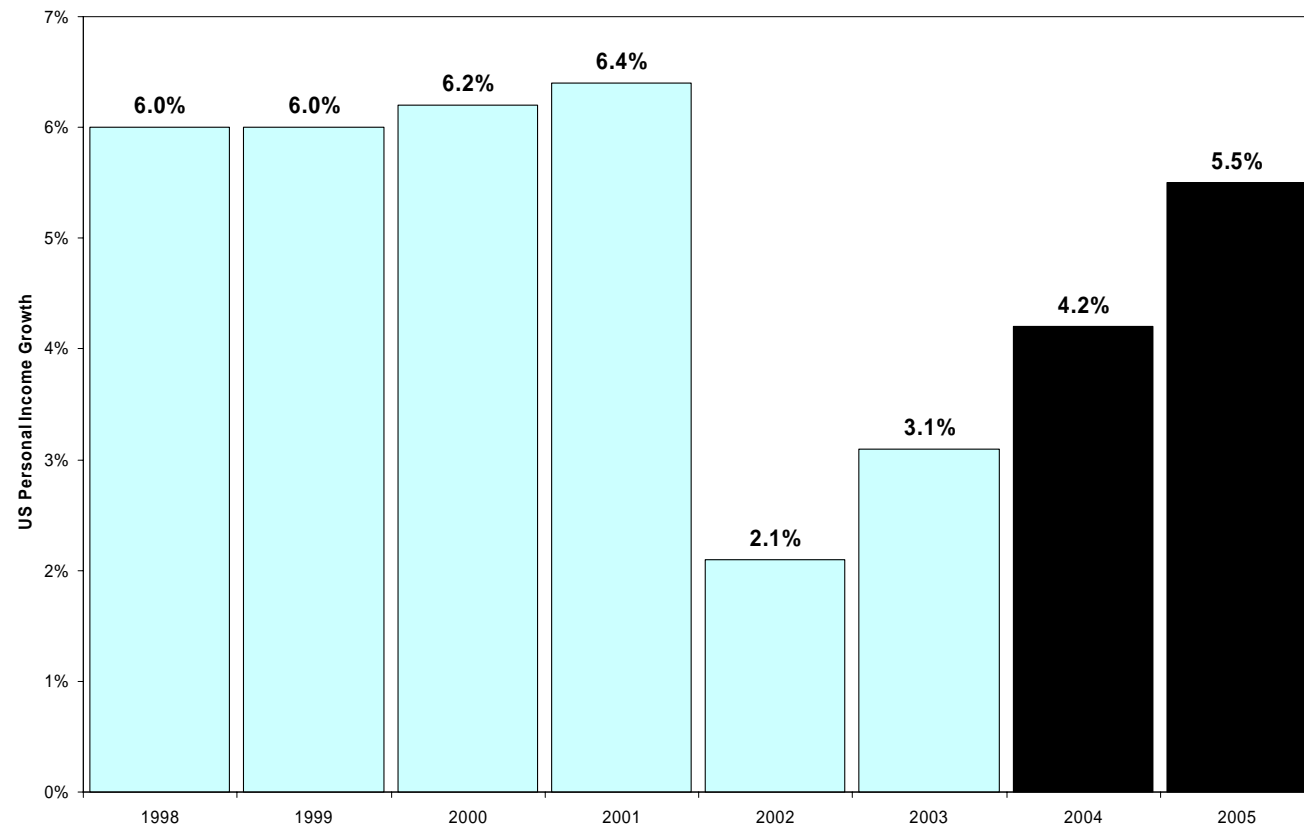


## State employment growth followed a similar path



## Washington state was not immune from the impact of the national recession in 2002

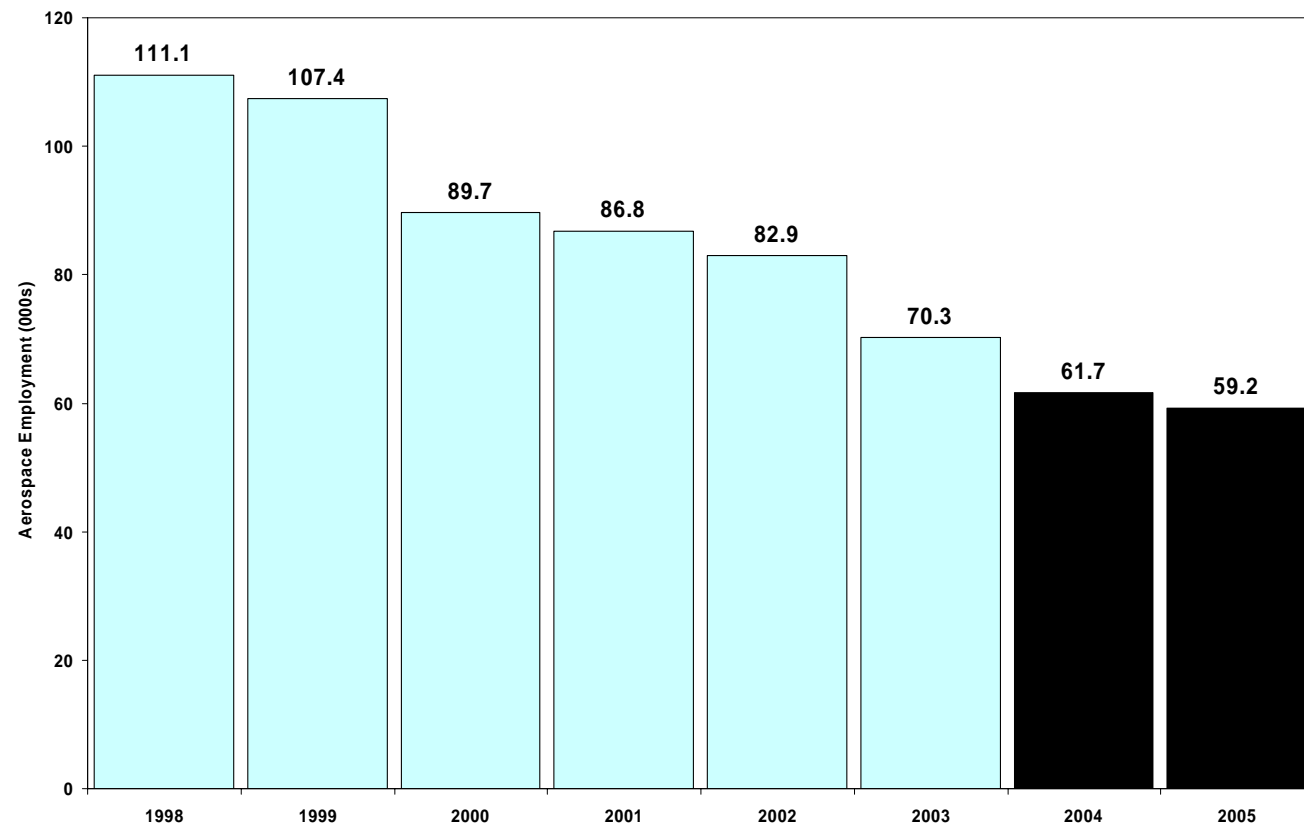
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## Aerospace employment has declined significantly since 1998

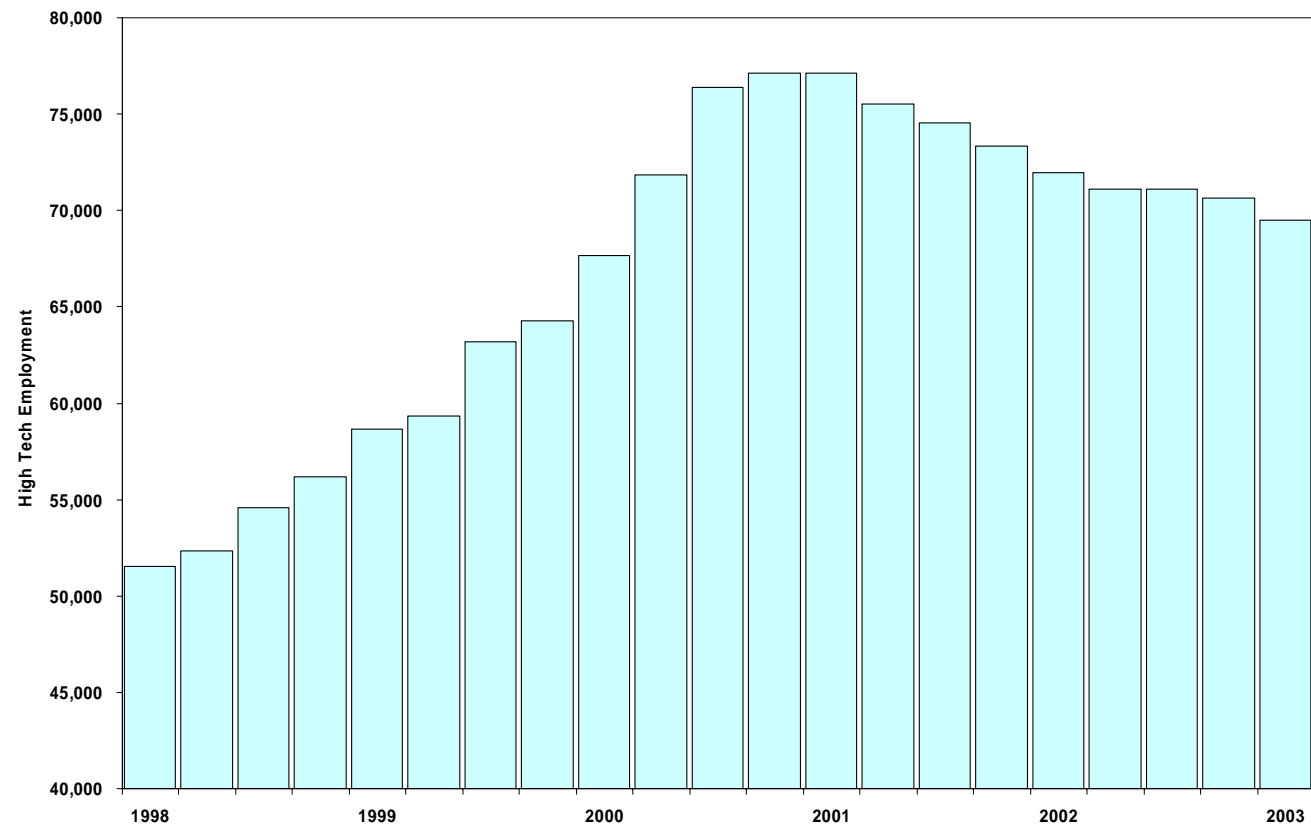
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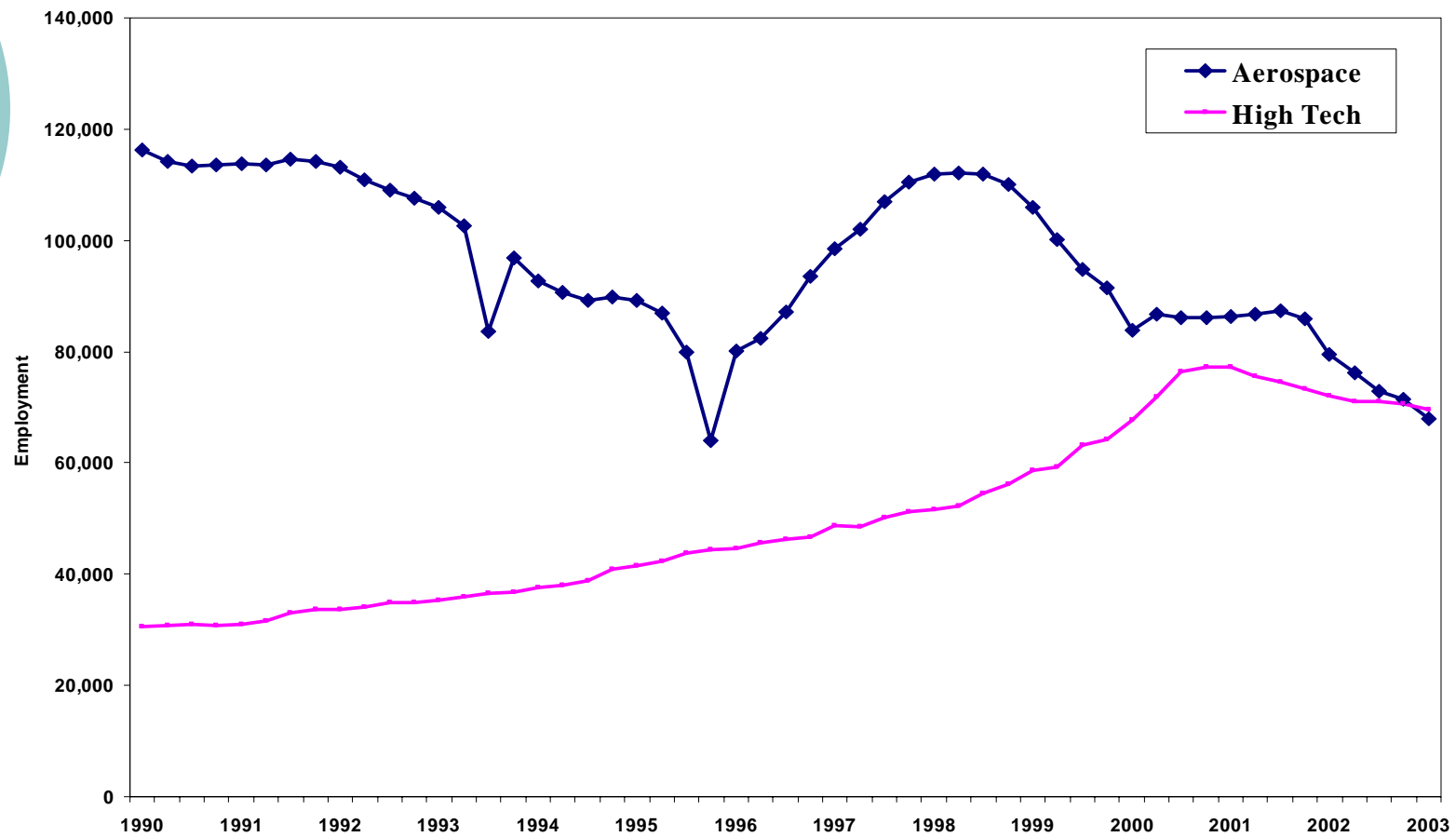


After years of dramatic growth, high tech employment leveled off and has recently declined

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Today, high tech and aerospace employment are virtually the same size in Washington

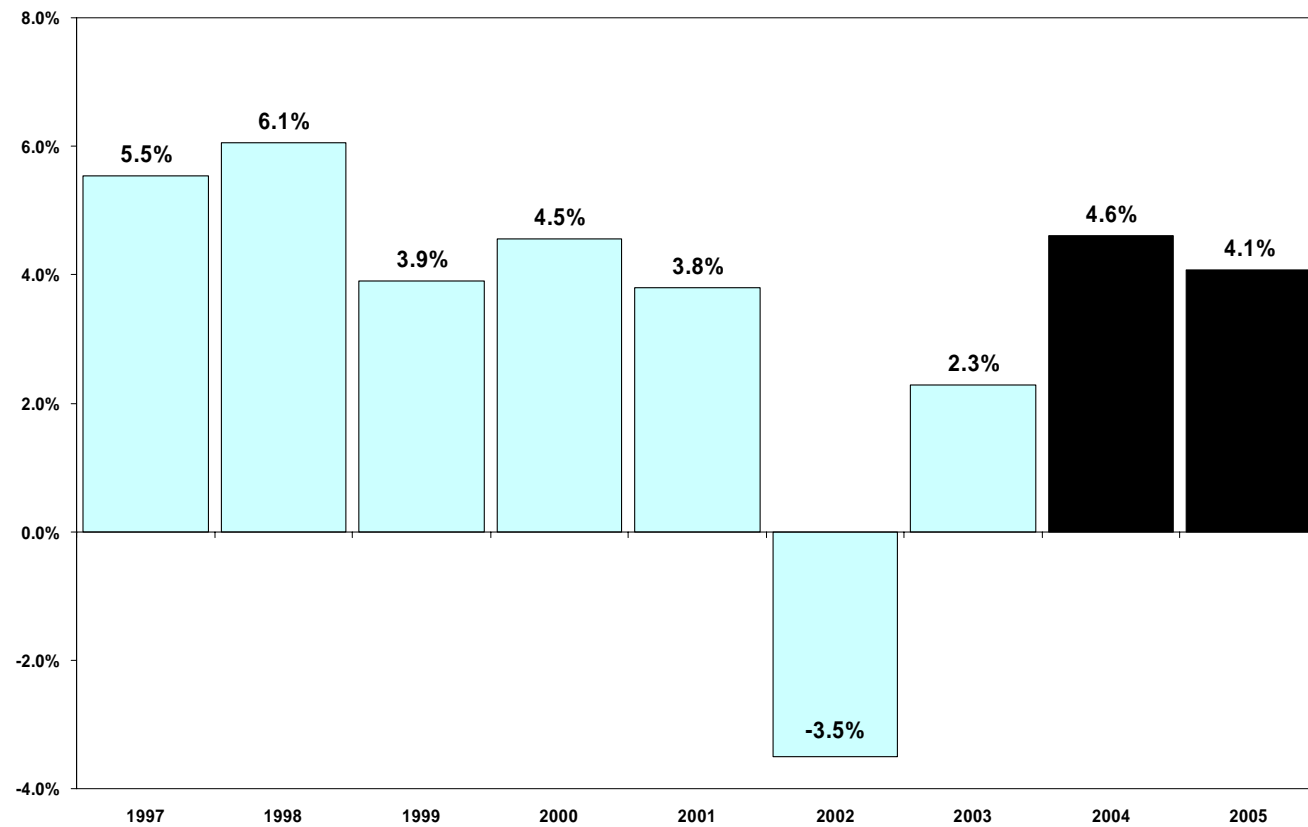






All of these factors lead to a decline in General Fund revenues in 2002 after several years of strong growth

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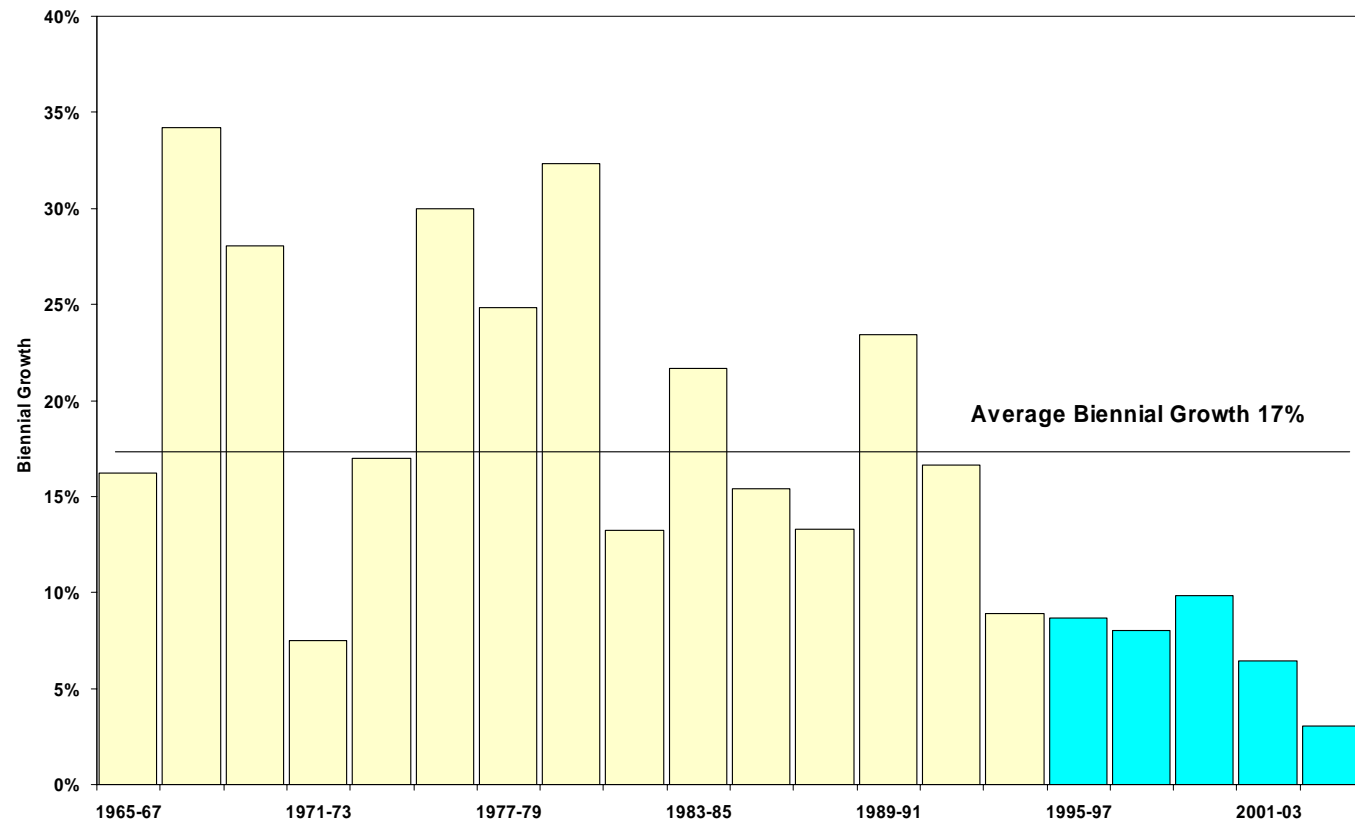




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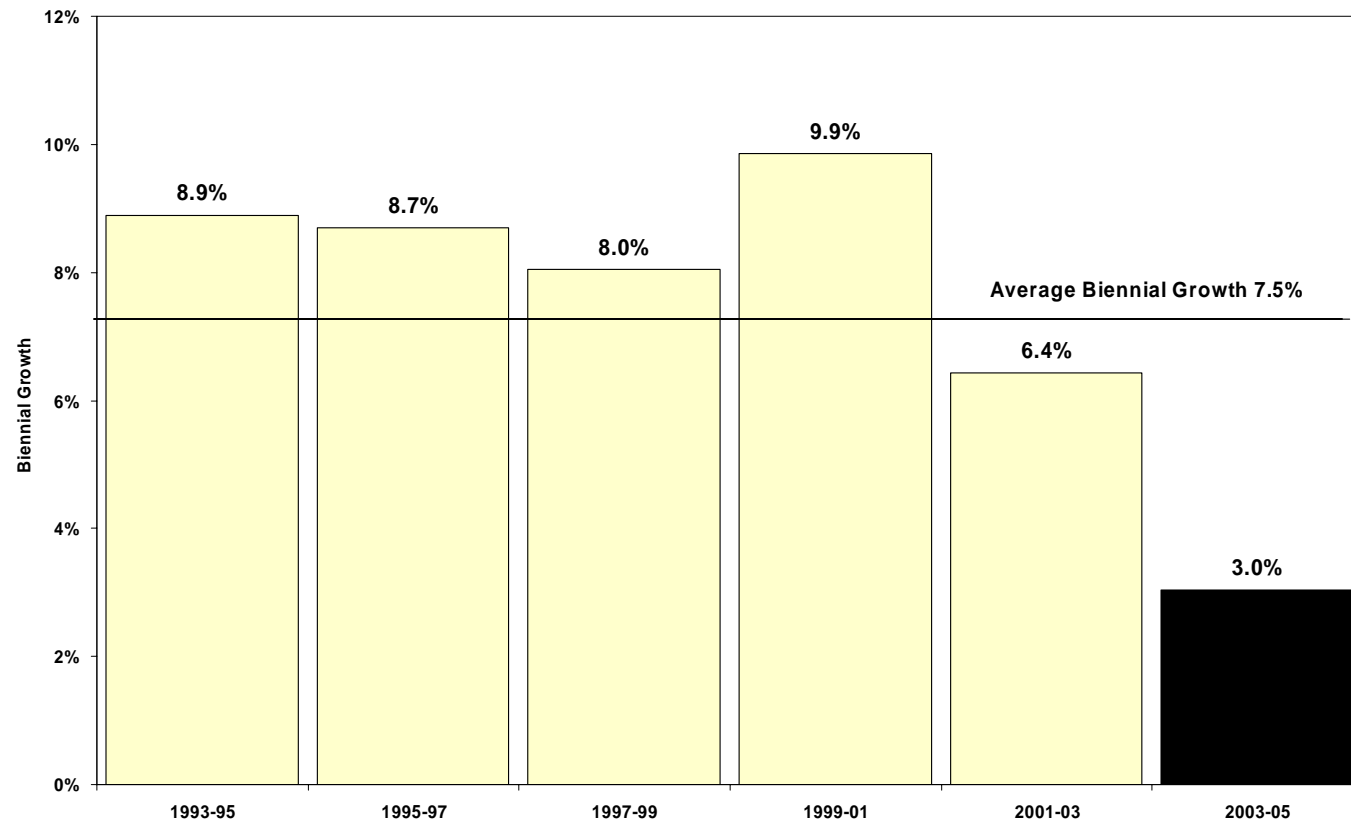
## Part 2: Expenditures

## State general fund spending growth is historically low



And 2003-05 general fund budget growth is less than half of the average post-601 expenditure growth

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The 2004 Supplemental budget is likely to be about \$200 million higher than expected in the 2003 session

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<i>Budget Requests for entitlement programs and emergencies include:</i>	
Corrections Caseload increase (increased custody violators, more alternative sentence revocations and the transfer of inmates from the counties to the state.)	\$67 M
K-12 Enrollment increase. In addition to enrollment increases, includes cost increases for levy equalization, bus depreciation, and inflation.	\$48 M
SSI State Supplements (Federal disallowance)	\$28 M
GAU caseload increase	\$26 M
Fire Suppression Costs (Summer 2003)	\$30 M
<b>TOTAL</b>	<b>\$199 M</b>



The projected 2004 supplemental, along with new federal fiscal relief information and the suspension of the presidential primary, leaves almost \$300 million in remaining reserves

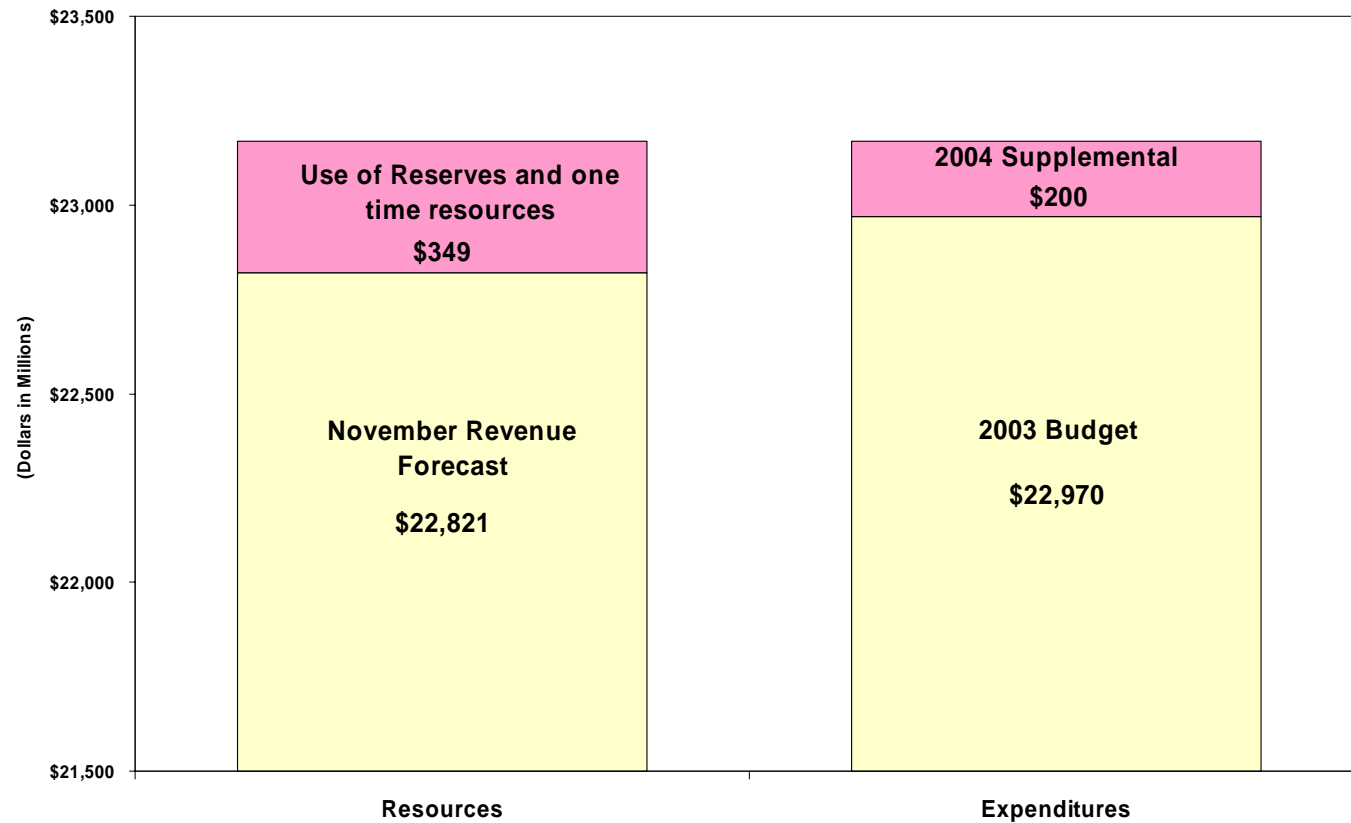
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Current Reserves (as of Nov. 2003 forecast)	\$544 M
Federal Fiscal Relief Correction	(\$57 M)
Suspend Presidential Primary	\$ 6 M
2004 Supplemental (estimate)	(\$200 M)
<b>Remaining Reserves</b>	<b>\$293 M</b>



The 2003-05 budget will likely be balanced with a combination of ongoing revenues and use of reserves

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## Part 3: Six Year Outlook





## Baseline expenditures are expected to grow by 4.2% over the next six years

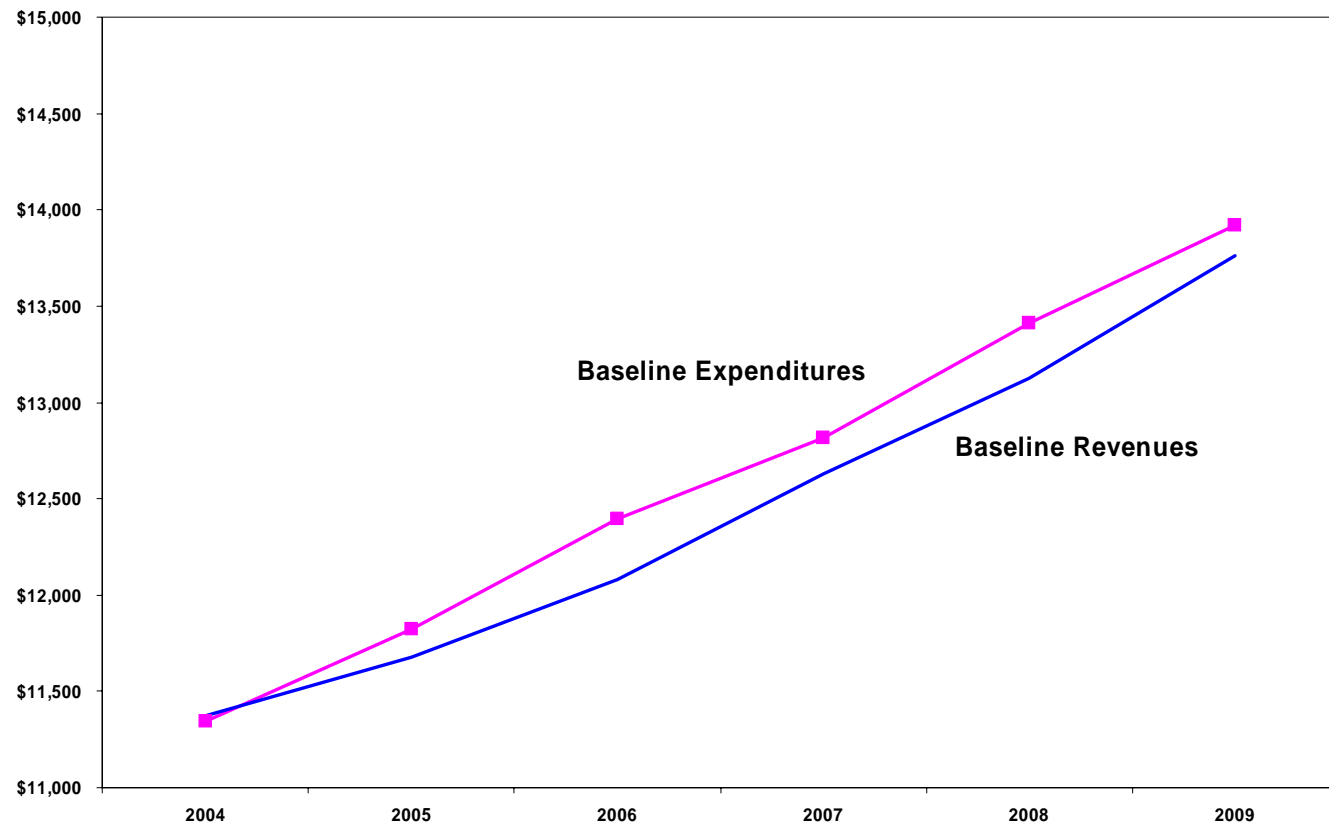
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- The state population will continue to increase including growth in the segments of the population that consume entitlement services such as health care, education, corrections, and long term care
- Growth in low income health care costs is expected to continue at double digit levels.
- Future increases in state employee health care costs are borne by the employee
- Pension contributions will rise from the current low average rates of 1.4% to rates of 7.5% or more
- Debt service will grow to finance increasing capital budget levels



The baseline six-year fiscal projection shows the state with a cumulative \$650 million deficit by the end of 2009

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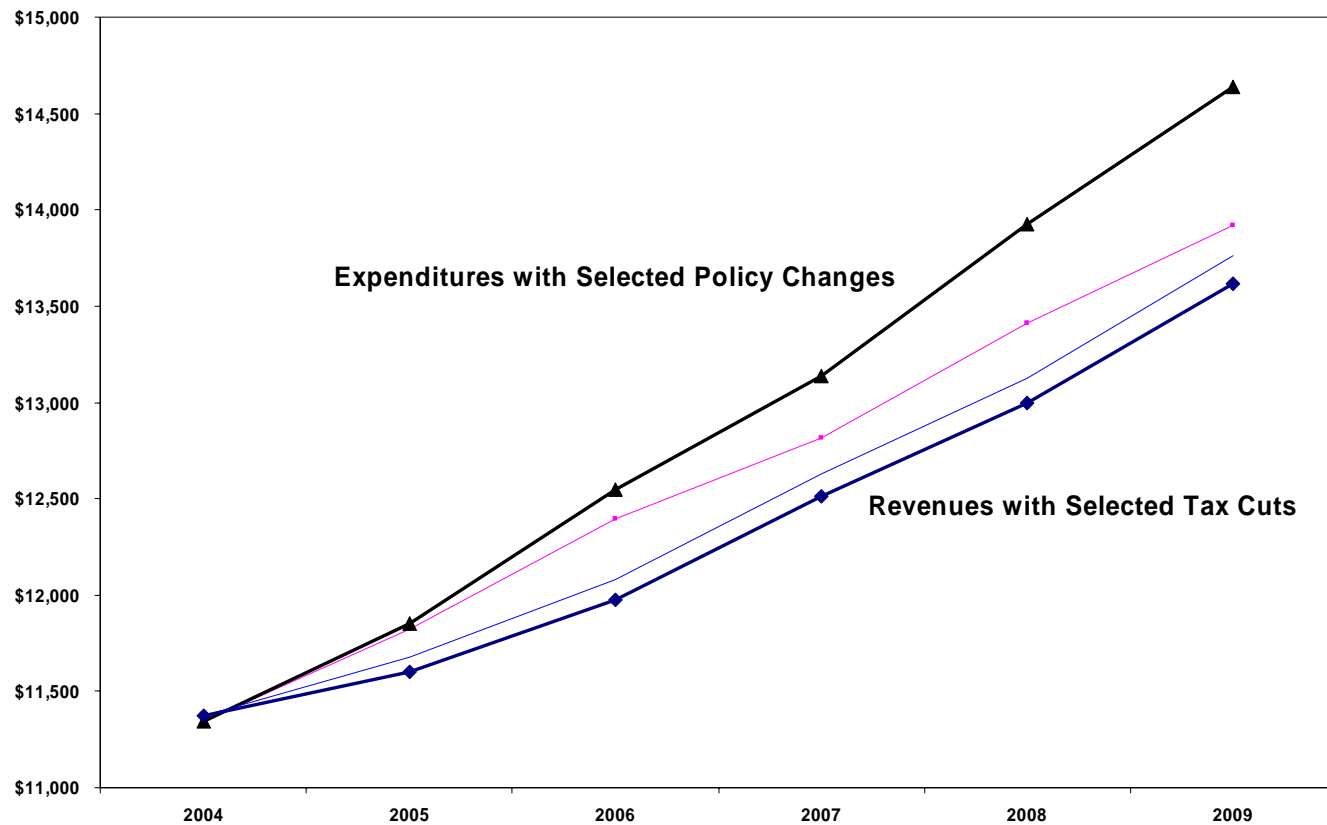


The baseline six year forecast does not include a number of policy items that the legislature is likely to consider

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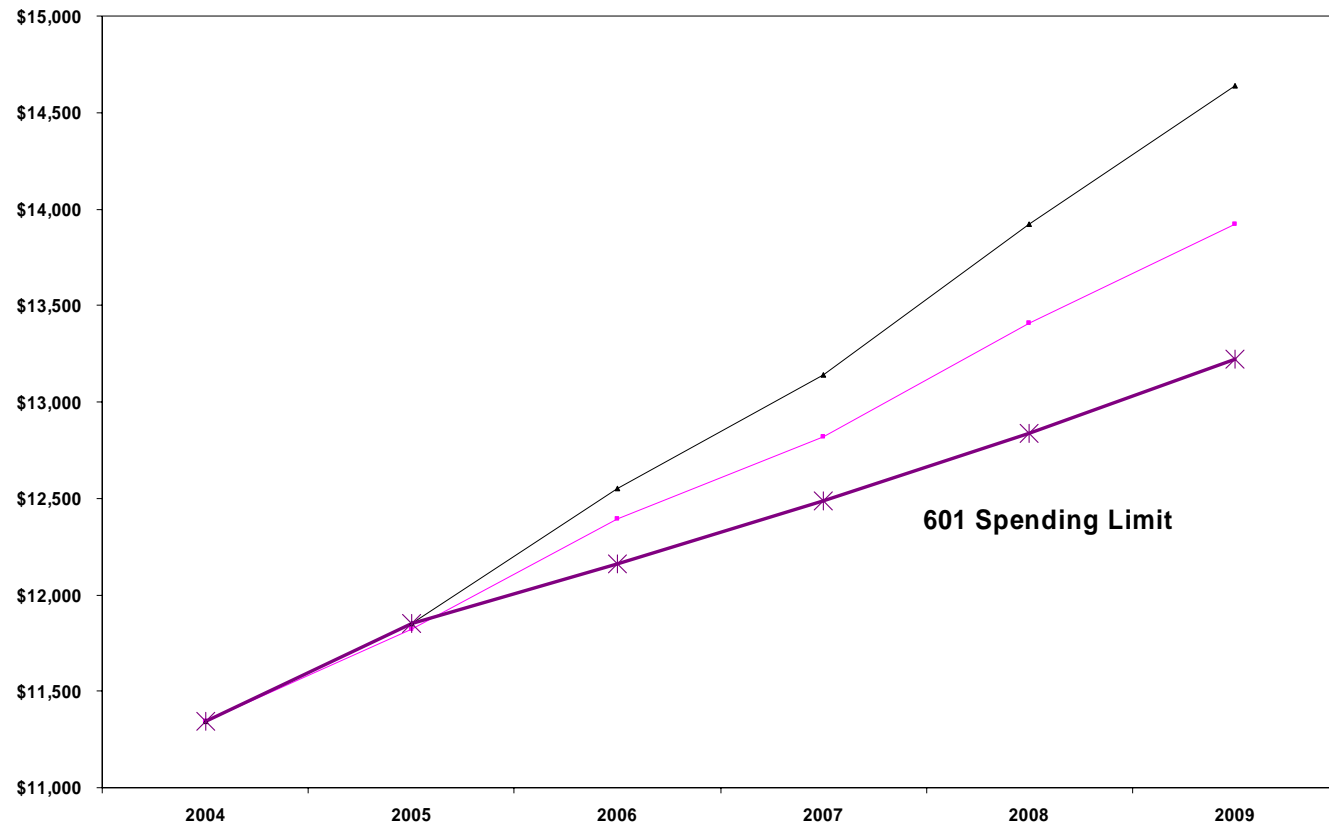
- Maintain state share of employee health care benefit costs
- Increased higher education enrollments
- COLAs for other state employees and vendors
- Home health care workers collective bargaining agreement
- Extend the High Tech tax incentives

If selected expenditure and revenue policy changes are incorporated, the six-year projection shows the state with almost a \$3 billion cumulative deficit by the end of 2009



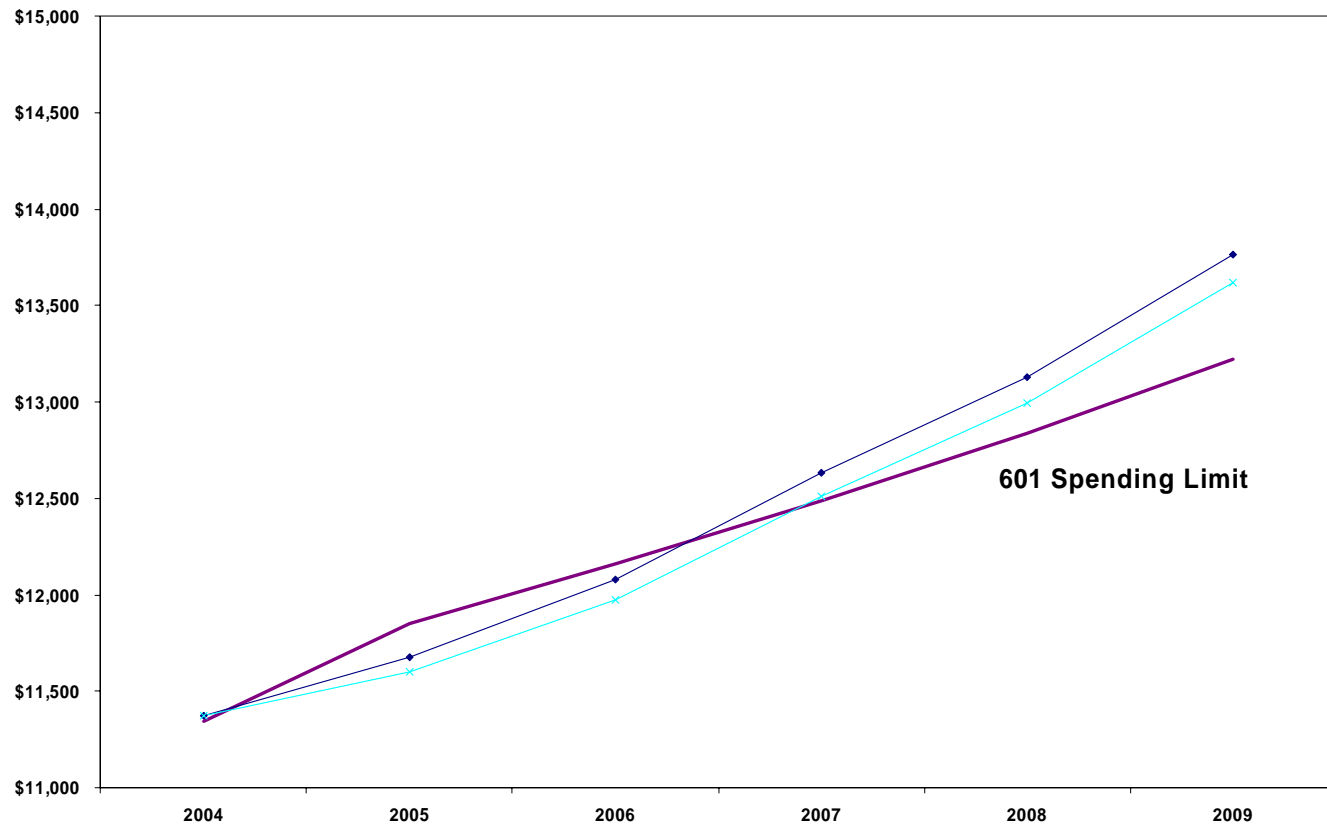
In addition, the current 601 Spending Limit projections are lower than projected expenditures (with or without selected policy adds)

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Revenues (with or without the selected tax cuts) are expected to be greater than the 601 limit, therefore budgets at the 601 level would leave a surplus of almost \$580 million

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## Six Year Outlook Summary

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- Expenditures are expected to grow by 4% to 5% per year
- Revenues will grow by less than 4%
- And the 601 limit will grow by less than 3%

## Long term balance sheet

### 6 year Outlook

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>Baseline Expenditure</b>	\$11,270	\$11,700	\$12,037	\$12,369	\$12,725	\$13,099
Supplemental Budget	75	125	129	132	136	140
K-12 COLA			27	77	152	236
Pension Contributions			201	239	397	446
Employee Health Care Benefits		-	-	-	-	-
Higher Ed Policy		-	-	-	-	-
State Employees - Vendors COLA		-	-	-	-	-
Home Health Care Workers		-	-	-	-	-
Total	11,345	11,825	12,394	12,818	13,410	13,921
<b>601 Limit</b>	<b>11,345</b>	<b>11,825</b>	<b>12,135</b>	<b>12,462</b>	<b>12,811</b>	<b>13,195</b>
 <b>Resource Assumption</b>						
Beginning Balance	412	440	293	(21)	(208)	(492)
Baseline Revenue	11,183	11,638	12,220	12,831	13,473	14,146
One time resources	190	39				
K-12 Resume Phase In			(85)	(153)	(226)	(249)
Aerospace Incentives			(55)	(48)	(121)	(134)
Hi tech Extension		-	-	-	-	-
Total	11,785	12,118	12,373	12,609	12,918	13,271
 <b>Ending Balance</b>	<b>\$440</b>	<b>\$293</b>	<b>(\$21)</b>	<b>(\$208)</b>	<b>(\$492)</b>	<b>(\$650)</b>



## The long term balance sheet (with selected policies added)

### 6 year Outlook

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>Baseline Expenditure</b>	\$11,270	\$11,700	\$12,037	\$12,369	\$12,725	\$13,099
Supplemental Budget	75	125	129	132	136	140
K-12 COLA			27	77	152	236
Pension Contributions			201	239	397	446
Employee Health Care Benefits		-	76	162	256	361
Higher Ed Policy		-	9	19	30	41
State Employees - Vendors COLA		-	31	98	184	269
Home Health Care Workers		<u>25</u>	<u>40</u>	<u>42</u>	<u>43</u>	<u>45</u>
Total	11,345	11,850	12,550	13,139	13,923	14,637
<b>601 Limit</b>	<b>11,345</b>	<b>11,850</b>	<b>12,160</b>	<b>12,489</b>	<b>12,839</b>	<b>13,223</b>
<b>Resource Assumption</b>						
Beginning Balance	412	440	191	(386)	(1,013)	(1,941)
Baseline Revenue	11,183	11,638	12,220	12,831	13,473	14,146
One time resources	190	39				
K-12 Resume Phase In			(85)	(153)	(226)	(249)
Aerospace Incentives			(55)	(48)	(121)	(134)
Hi tech Extension		<u>(77.0)</u>	<u>(107)</u>	<u>(118)</u>	<u>(131)</u>	<u>(145)</u>
Total	11,785	12,041	12,164	12,126	11,982	11,678
<b>Ending Balance</b>	<b>\$440</b>	<b>\$191</b>	<b>(\$386)</b>	<b>(\$1,013)</b>	<b>(\$1,941)</b>	<b>(\$2,959)</b>